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AGENDA ITEM 4

TO: MEMBERS OF THE BENEFITS AND PROGRAM ADMINISTRATION COMMITTEE

- I. SUBJECT:** Public Hearing and Adoption of Proposed Regulations – Service Credit Installment Payment Interest
- II. PROGRAM:** Retirement
- III. RECOMMENDATION:**

Staff recommends that, subject to the results of the public hearing, the Committee recommend adoption by the full Board of the proposed amendments to Title 2 of the California Code of Regulations to make explicit the current CalPERS policies and practices for the interest rates charged on member installment payments for service credit purchases and contribution adjustments.

IV. ANALYSIS:

The California Code of Regulations (CCR), Title 2, sections 575.1 and 575.2, establish the authority and conditions for members to make service credit purchases using installment payments. These existing CCR provisions, however, do not specify the interest rate(s) to be charged on these payments.

The proposed amendments to CCR sections 575.1 and 575.2 make explicit the current CalPERS policies and practices for the application of interest to member installment payments for service credit purchases and adjustments.

This Committee on November 15, 2005 recommended to the full Board the approval for publication of these proposed regulations. The Board of Administration approved the proposed regulations to be forwarded to the Office of Administrative Law (OAL) for public notice. The *Notice of Proposed Regulatory Action* was published by OAL in the 2005 California Regulatory Notice Register, File No. Z05-1213-03, December 23, 2005 (Attachment A). The actual text of the proposed amendments to the CCR

sections 575.1 and 575.2 is provided as Attachment B. The written comment period for the proposed regulatory action closed at 5:00 p.m., February 6, 2006.

One written comment was received (from the City Pittsburg, CA; see Attachment C for the letter and the CalPERS reply). In the letter from the City of Pittsburg, a change to the proposed regulations was requested to have CalPERS apply to member installment payments the interest rate in effect at the time of each installment payment. However, current law (Govt. Code section 20132) requires that the interest rate in effect at the time of the member service credit election remain the same through the completion of payments. Thus, staff is not recommending any change to the proposed regulations as the result of the written comment received, because current law precludes such a change.

The purpose of the public hearing is to allow the public to present testimony regarding the proposed regulatory action. The Committee is not required to respond to these comments during the public hearing; rather, all comments must receive a response from CalPERS as part of the final rulemaking file.

At the conclusion of the public hearing, the proposed amendments to this agenda item, and a summary of any public comments which have been received, will be sent to the CalPERS Board of Administration for consideration. If the Board decides to adopt the proposed amendment, the rulemaking file will be forwarded to the Office of Administrative Law (OAL) for review and approval. Once OAL has approved the proposed amendment, it will be forwarded to the Secretary of State for filing and public action in the California Code of Regulations. The amended regulations will become effective 30 days after filing with the Secretary of State.

V. STRATEGIC PLAN:

The adoption of the proposed regulations supports Goal III and Goal IV of the CalPERS Strategic Plan as follows:

Goal III by designing, developing and administering benefit programs and business processes that are innovative, effective, and valued by our members, employers and stakeholders, and

Goal IV by assuring that sufficient funds are available to pay benefits.

VI. RESULTS/COSTS:

The adoption of the proposed regulations will not result in additional workload or cost impacts, because they make explicit current CalPERS policies and practices.

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